

April 6, 2009

The Honorable Michael E. Fryzel  
Chairman, National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood  
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland  
Board Member, National Credit Union Administration

Re: Comments on Advance Notice of Proposed Rulemaking for Part 704

Dear Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

Credit Union of America (CUA) has a long history of association with the corporate credit union network. John Michener, the founder of our credit union in 1935, was one of the visionaries who designed and chartered Kansas Corporate Credit Union in 1951. Mr. Michener, who managed the credit union in a volunteer capacity without compensation, always stressed the importance of developing our own cooperative systems to avoid dependency on our for-profit bank competitors. Our credit union still believes in this philosophy today. I personally serve on the Kansas Corporate Board, and served on the U.S. Central Board from 1993 to 2004, when director positions from natural person credit unions were discontinued.

CUA is a \$300 million credit union chartered in Kansas and located in Wichita, Kansas. We serve approximately 30,000 members who predominately live and work in central Kansas. In 2008, we had a return on assets of 1.10% and a net worth ratio of 11.64%, both excluding any NCUA driven adjustments. Our loan-to-share ratio is 90%.

**What does my credit union use our corporate for?**

We depend on KCCU and the corporate network for a number of our core financial services including settlement services (checks, ACH, VISA, member deposits, credit union checks, etc.); wires (both domestic and international);

security safekeeping; investments (corporate, bank CDs and marketable securities); liquidity (line of credit for overnight and term borrowings). Although these services are available from other third-party vendors, the expense would be greater, and the level of trust in those vendors would be far less than the trust we hold in Kansas Corporate.

We do not maintain any relationships or accounts with banks other than bank CDs purchased through the KCCU sponsored SimpliCD program. In 1999, as we made our Y2K preparations, we found the banking industry an unreliable and undependable provider of basic coin and currency services and cash letter services. We turned to KCCU and the corporate quickly found a solution for our coin and currency needs, eliminating our final tie to any bank competitors. We consider Kansas Corporate Credit Union one of our credit union's most important strategic business partners. We believe they provide essential financial services to all member credit unions. This is especially true for small to mid-size credit unions, which includes the majority of Kansas credit unions. Because our credit union is larger than most in our state, we are able to utilize the FHLB of Topeka for borrowing and funding sources for matched borrowings on long-term mortgage loans. This option may not be available to mid-size and smaller credit unions due to capital requirements or other risks, leaving them no alternative for borrowing needs if Kansas Corporate is not available.

### **A Good Model**

The business model of KCCU is a good model which has worked well for many years, through many economic cycles. KCCU has a strong base of member support with a 52% market share of credit union investment activities. One hundred percent (100%) of Kansas based credit unions belong to KCCU, hold membership shares, and depend on KCCU for various services. KCCU provides competitively priced services and investment options against larger corporate and other competitors. This has been achieved because KCCU was able to rely on US Central for systems, products and services that could be passed to member credit unions at a competitive price. The relationship with U.S. Central, has allowed Kansas Corporate to avoid building and maintaining expensive systems and infrastructures in order to serve a limited market. KCCU is very responsive to member needs and input due to its strong face-to-face relationships with members and local governance, with directors from a close-

knit, statewide membership. Kansas credit unions like their local corporate, have actively supported it, and we want to retain the corporate as close to this previously successful model as possible. The recent conservatorship of US Central, the market meltdown, and associated system risk, means some changes are inevitable and appropriate to minimize the risks of repeating today's problems and system wide losses.

The key components of this successful model are a supportive and active membership with capital and ownership requirements, local presence and local governance/control. Additional requirements include automated settlement, payment, and support services from a wholesale tier provider, short term liquidity, and lending services, with backup access to systems for longer term and more extreme liquidity needs. The model must include investment authorities, and abilities large enough to support core services and meet emerging needs of member credit unions, but limited by risk based capital requirements to control systemic risks. A flexible field of membership to allow for growth and economies of scale as credit unions consolidate is also key to a successful model.

### **Payment Systems**

Automated settlement and payment systems is a critical core service and requires a single point of aggregation across the country for efficiency, which US Central provided. We believe separating payments systems services would increase costs, resulting in higher fees, and increased inefficiency. It is not practical for settlement services to be a completely self funded operation. Additional services with added revenue streams are needed, such as investment services and liquidity management.

### **Liquidity & Liquidity Management**

These services tie directly into automated settlement and payment systems and are a core service of Kansas Corporate and the corporate system. We utilize KCCU for short term liquidity even though we use the FHLB for more structured borrowing and for backup redundant purposes. No one fully appreciates the need for multiple points of liquidity access until there is a liquidity problem or

crisis, when it is too late for market based solutions. NCUA should support and help insure there are backup liquidity systems available and in place for credit unions to access in the event of extreme liquidity situations. Many credit unions in Kansas don't qualify for membership with the Federal Home Loan Bank, and attempts to obtain a line of credit with other financial institutions have been met with higher fees to open a credit line; higher rates if the line is accessed; and excessive collateralization requirements. In today's market, it would be almost impossible to open new lines of credit, and fees would certainly be higher than in the past.

### **Field of Membership**

Due to the limited size of the market in Kansas and expected consolidations of credit unions, a larger and broader field of membership is needed to insure reasonable economies of scale can be achieved. Requirement of capital investment/ownership to access services would limit inappropriate system defeating competition. Growth of the corporate, in a safe and sound manner, should be encouraged. Each corporate should make their own business decision as to whether they want to actively pursue all credit unions, or serve restricted areas based upon their own individual business plans. National fields of membership did not create this issue alone, and would not have prevented the problems that required NCUA to take the actions they did.

### **Structure: Two-tiered System**

We believe the two-tier corporate credit union structure should be retained, and believe it creates efficiencies. Similar structures within the financial industry do not exist, and we view that as a positive attribute which other financials would like to have. The roles and authorities within each of these tiers should be adjusted to fit the model structure we are outlining in this comment letter.

### **Corporate Capital**

Corporate capital structure should be risk-based, providing parity with other financials, in line with other regulatory standards and should become somewhat of a self-regulatory tool. At-risk capital investments by credit unions in corporates should be considered as capital that can be used by the corporate. The capital in Kansas Corporate, RUDE, PIC and Membership Capital is the

property of our member/owners and should not be in anyway mutualized or confiscated to support competing second tier corporate.

### **Permissible Investments**

We believe corporate investment powers should be greater than that of natural person credit unions; otherwise their ability to add value to their membership declines. However, proper infrastructure must be in place to support the amount of investment risk each corporate chooses to take based upon their investment philosophy and risk tolerance. Corporates that choose to take more risk should be subject to additional regulatory supervision and additional capital requirements in order to support their individual risk levels.

### **Corporate Governance**

Corporate board structure should not change. A board of directors, democratically elected by the membership, is consistent with the cooperative charter, and it works. We are against an outside director category, as we believe that board members who are also CEOs of member credit unions is part of what has made our corporate successful. Board structure at USC FCU should directly include NPCUs representation.

### **What do I need from my corporate in the future?**

As a critical strategic business partner, we need our corporate to provide the services they currently provide, as well as being a catalyst for the development of future services that our credit union may need. Our corporate has existed for a long time, and the relationships and trust that have been built and developed over time is not easily replaced. Our biggest concern is that our corporate and the capital it has built over the years will be consolidated and lost. There is no evidence, in the form of better rates or lower fees, that economies of scale benefiting credit unions has been achieved through past corporate consolidations. We do not want to be reliant on our banking counterparts for services that we currently receive from our corporate.

We believe the above model represents the best solution for our credit union, and the credit unions in our market with whom we cooperated to build and support KCCU.

**Fall Back Option**

If the above model is not achievable under regulatory oversight or market conditions, the only other position we would support is a full consolidation and collapsing of the network into a single national settlement, payment and short term liquidity provider, achieved without the mutualization of our capital at KCCU. Investment services would be provided through a linked, but independent, broker-dealer structure placing the investment risk on the individual credit union balance sheet, and mitigating systemic risk to the credit union system. We do not favor a regionalization solution. We see no advantage in economies of scale or competition by use of consolidated regional corporate. The bulk of the losses and potential problems outside of USC FCU is within the self proclaimed regional corporates and consolidation would dilute and weaken rather than strengthen the corporate system. If the CCUN is collapsed into a single entity for core settlement, payment and liquidity management, then self funded CUSOs should be allowed and encouraged to step in and replace other services such as off balance sheet investing (broker dealer), loan securitization and participations and localized services like coin and currency or ALM modeling and consulting.

The most important step is for NCUA to preserve the maximum amount capital and resources and limiting losses to both NPCUs and the CCUN, so there is more left to rebuild from.

Thank you for the opportunity to provide comment.

Sincerely,

Bob Thurman, President  
Credit Union of America